FOURTH

ANNUAL REPORT

OF

JEWEL TEA CO., INC.

1919

JEWEL TEA CO., INC.

GENERAL OFFICES:
1327 WASHINGTON BOULEVARD
CHICAGO, ILL.

PLANTS:

CHICAGO NEWARK NEW ORLEANS SAN FRANCISCO

DIRECTORS:

H. S. BOWERS
RAYMOND E. DURHAM
JOHN M. HANCOCK
ARTHUR LEHMAN
HERBERT H. LEHMAN
F. P. ROSS
ARTHUR SACHS
C. J. SHERIDAN
O. B. WESTPHAL

OFFICERS:

RAYMOND E. DURHAM, President
JOHN M. HANCOCK, Vice President
O. B. WESTPHAL, Vice President
C. J. SHERIDAN, Secretary and Treasurer
HAROLD F. LINDLEY, Asst. Sec'y.

TRANSFER AGENT:

COLUMBIA TRUST COMPANY, 60 Broadway, New York City

REGISTRAR:

LAWYERS TITLE & TRUST CO., 160 Broadway, New York City

AUDITORS:

TOUCHE, NIVEN & CO., Public Accountants
New York and Chicago

TO THE STOCKHOLDERS

OF

JEWEL TEA CO., INC.

The Directors present herewith the financial results of the operations of your company for the fiscal year ended December 27th, 1919, together with general balance sheet. The net operating loss and special charge-offs for the year amounted to $1,847,203.02, which charges include the adjustment of book inventories, and loss and reserve for obsolete stock, together with additional reserves against customers' accounts receivable and premium balances.

During the year, it became apparent to your Directors that the business of the company was not progressing satisfactorily. The Officers of the company tendered their resignations, which were accepted by the Board of Directors, and practically a new Management was put in charge of the affairs of the company.

The sales for the year 1919 were $16,538,635.38. When the new Management assumed control the sales were at the rate of about $14,500,000. It is gratifying to report that the sales have gradually increased until at the present time they are at the rate of over $18,500,000, with every indication that the increases are built on a sound and permanent basis. It should be noted, however, that owing to the sharp advance in the price of coffee and other merchandise, the company should obtain sales of approximately $20,000,000 to equal on a unit basis the volume of previous years (1916, 1917, 1918).

The company from its inception up to and including 1917 had always enjoyed very generous gross profits. By 1919 trade conditions and labor costs had undergone a change, resulting in a large reduction of the percentage of gross profit. This condition was greatly accentuated by the abnormal advance in coffee prices, due, primarily, to crop failures in Brazil. The new Management realized that the margins of gross profit earned by the company were not sufficient to meet the greatly increased operating expenses, and has recently effected a substantial improvement in this respect. It has also prepared statistics showing an accurate analysis of operating costs, and the details of all such costs in every branch of the business can now be analyzed, with the result that substantial reductions in abnormal expenses should be effected in the future.

There was an enormous turnover of labor, due to the war, and the standard of the personnel of the company was thereby greatly weakened. Many wagons were operating at a loss, and strikes were in effect in twelve cities. These labor difficulties have been satisfactorily overcome. The spirit of co-operation among the officers and employees is now excellent and a large number of competent salesmen

has been employed to replace men who could not qualify as salesmen. There has also been put into effect a new wage plan, permitting salesmen and field managers to participate in the profits of their respective branches. This enables them to earn larger wages than has heretofore been possible, and has been received with great enthusiasm by the field force. The men fully realize that, according to their own individual efforts in increasing sales, and by reducing expenses, their own earnings can be increased. The Management feels that this plan in itself will tend to increase substantially the sales and gross profits and reduce expenses.

The turn-over in the business was approximately only twice a year, due to the maintenance of what now appear to be abnormally large stocks of goods. Some of the stocks were found to be obsolete and these are being rapidly converted into cash under the present favorable market conditions.

Owing to the high price of raw materials, which requires increased working capital, it was deemed wise during the year to fund the company's floating indebtedness, and there was therefore issued $3,500,000 of 6% Serial Gold Notes shown in our balance sheet.

After your Board of Directors had before them the report made by the new Management as to the condition of the business, they discontinued paying dividends on the preferred stock.

We have substantial claims against the Government covering losses due to the commandeering of our Hoboken plant, which we have every reason to believe will be paid promptly. This plant was returned to the company on September 1, 1919, but the equipment has been neither restored nor paid for as yet. The plant will not be on a producing basis before July 15, 1920. This action of the Government in taking this plant has resulted in great disorganization in the company's production and has caused large losses, some of which are difficult of ascertainment, but none the less real.

While our operating loss and special charges are large and regrettable, the company expects by July 1, 1920, to be operating efficiently and economically in all departments. More detailed accounting methods are being thoroughly established, giving your Directors and Officers the essential facts necessary to the successful operation of the business.

Since July, 1919, the volume of the business has been steadily increasing; the gross margins have been improved, and it is hoped to effect a substantial reduction in expenses. While there are many difficulties still to overcome and the future is in many respects uncertain, the Management believes that the business can again be placed on a satisfactory earning basis.

For the Board of Directors,

RAYMOND E. DURHAM, President.

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BALANCE SHE

ASSETS

CURRENT ASSETS:		
Inventories:		
Merchandise Products	$ 4,379,150.74	
Premium Merchandise	1,032,685.75	
	$ 5,411,836.49	
Accounts and Notes Receivable (less Reserve)	1,007,710.65	
Trust Funds, Investments (Surety Deposits, per contra)	71,699.42	
Cash at Banks, on hand and in transit	623,176.55	
Total Current Assets		$ 7,114,423.11
DEFERRED CHARGES:		
Merchandise Premiums (at cost) advanced to customers (less Reserve)	$ 700,000.00	
Branch Development Expenses deferred	112,586.98	
Discount on 6% Gold Notes, proportion unamortized	149,251.11	
Claim for Federal Taxes Recoverable	104,653.45	
Inventories of Expense Supplies	6,745.02	
Unexpired Insurance and Prepaid Interest	20,620.40	
Leasehold Purchases and Improvement Expenses	14,923.92	
Total Deferred Charges		1,108,780.88
CAPITAL ASSETS (less Depreciation Reserves):		
Land and Buildings	$ 283,375.79	
Machinery, Furniture and Fixtures at Plants	96,428.47	
Horses, Wagons and Miscellaneous Chattels, at Chicago and Branches	837,469.46	
	$ 1,217,273.72	
Goodwill	12,000,000.00	
Total Capital Assets		13,217,273.72
		$21,440,477.71

A CO., INC.
EMBER 27, 1919

LIABILITIES

CURRENT LIABILITIES:		
Letters of Credit and Acceptances	$ 1,044,019.01	
Notes Payable	150,000.00	
Accounts Payable	117,906.96	
Accrued Wages and Taxes	15,749.55	
Accrued Interest on Gold Notes, including Coupons not presented	34,234.52	
Surety Deposits (Specific Fund, per contra)	72,024.42	
Reserve for redemption of Profit Sharing Coupons	32,238.47	
Earnest-money received on Sale of Newark Plant	13,000.00	
Total Current Liabilities		$ 1,479,172.93
PURCHASE MONEY OBLIGATION, Newark Property		32,500.00
SERIAL SIX PER CENT. GOLD NOTES		3,500,000.00
Maturing:		
May 1st, 1920	$ 500,000.00	
Nov. 1st, 1920	500,000.00	
May 1st, 1921	750,000.00	
Nov. 1st, 1921	750,000.00	
May 1st, 1922	1,000,000.00	
	$ 3,500,000.00	
CAPITAL STOCK:		
Authorized and Issued:		
7% Cumulative Preferred Stock—40,000 Shares of $100.00 each	$ 4,000,000.00	
Whereof: Retired and cancelled	360,000.00	
Balance Outstanding	3,640,000.00	
Common Stock—120,000 Shares of $100.00 each	12,000,000.00	
Total Capital Stock		15,640,000.00
SURPLUS:		
Capital Surplus	$ 737,138.50	
Current Surplus	51,666.28	
Total Surplus		788,804.78
		$21,440,477.71

JEWEL TEA CO., INC.

SURPLUS ACCOUNT

CURRENT SURPLUS:

Balance, January 1st, 1919		$ 1,835,819.75
Add:		
Appropriated Surplus for redemption of Preferred Stock, transfered		240,000.00
Discount on Preferred Stock retired during year		16,622.50
		$ 2,092,442.25
Deduct:		
Net Operating Loss for year 1919	$ 1,274,045.88	
Adjustment of Book Inventories and Loss and Reserve on Obsolete Stock	333,556.09	
Additional Reserve against Customers' Accounts Receivable and Premium Balances	239,601.05	
Total	$ 1,847,203.02	
Preferred Stock Dividends:		
Quarterly dividends of 1¾% payable April 1st, July 1st and October 1st, 1919	193,572.95	
Total Charges against Surplus		2,040,775.97
Balance, December 27th, 1919		$ 51,666.28

CAPITAL SURPLUS:

Balance, January 1st, 1919	737,138.50
Total Surplus, carried to Balance Sheet	$ 788,804.78

CERTIFICATE OF AUDIT

Chicago, Ill., March 20th, 1920.

We have audited the books and accounts of the Jewel Tea Co., Inc., for the year ended December 27th, 1919, and hereby certify that the foregoing Balance Sheet and Surplus Account are in accordance therewith and exhibit, in our opinion, a correct statement of the financial position of the Company at the date stated and of its operations for the year then ended, after charging certain extraordinary losses and reserves resulting from the adjustment of Inventory and the elimination of discontinued lines of Merchandise and of slow and doubtful accounts for Products and Premium Balances.

TOUCHE, NIVEN & CO.,
Public Accountants.